HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
Trois-Rivières CMA

CANADA MORTGAGE AND HOUSING CORPORATION

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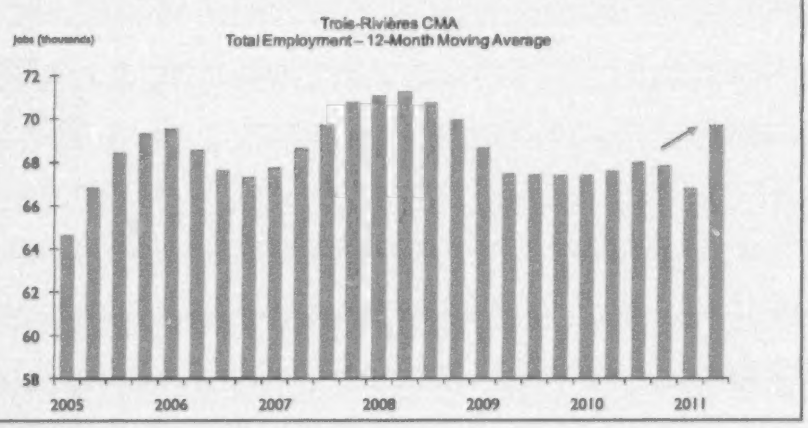
Activity to remain strong in 2011 and 2012 despite a slowdown[1]

Activity on the residential real estate market in the Trois-Rivières census metropolitan area (CMA) will remain relatively strong in 2011 and 2012, despite a slight slowdown. Even though migration will be less significant than in past years, the anticipated slight recovery of the job market, combined with the affordable financing conditions, will support demand on the real estate market in the area. The volumes of transactions on the resale market will therefore

Figure 1

Slow Recovery for the Job Market



Source: Statistics Canada

[1] The forecasts and historical data included in this document reflect information available as of October 5, 2011.

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stay high, thanks in part to the rise in the supply of properties for sale. As for residential construction, the pace will slow down, following an exceptional year in 2010. However, housing starts will stay at historically high levels. Lastly, rental market conditions, which eased in 2010, will be relatively stable in 2011 and 2012.

Job market expected to post a slight recovery

The job market in the Trois-Rivières census metropolitan area (CMA) will show renewed growth in 2011 and 2012, after a few slow years. From 2008 to 2010, just under 4,500 jobs were lost in the area, as a direct result of the global weakening (2008). This trend will turn around, as gains of 2,300 jobs (+3.5 per cent) and 1,000 jobs (+1.5 per cent) should be registered in 2011 and 2012, respectively. However, this growth, which will result mainly from a healthy domestic economy, will be below the rate recorded in the area in 2008, on account of the international economic conditions.

In 2011 and 2012, the strength of the Canadian dollar against the U.S. dollar will continue to affect the manufacturing sector, by undermining its competitiveness, especially in the case of the pulp and paper, wood, and furniture industries, which are still feeling the effects of the recession. In addition, uncertainty about the economic environment in the United States, the largest trading partner of the area's manufacturing industries, continues to raise concerns, which could lead to a slowdown in demand. On the other hand, the residential and non-residential construction sectors will still show strong activity. In fact, the effects of the government investments in public infrastructure will continue to be felt, and residential construction will remain significant. Despite the anticipated slowdown, housing starts will stay at historically high levels. Lastly, there will be an improvement in the outlook for the service sector (transportation and warehousing, information and culture, and non-commercial services). All in all, nearly 3,300 new jobs will be created by the end of 2012.

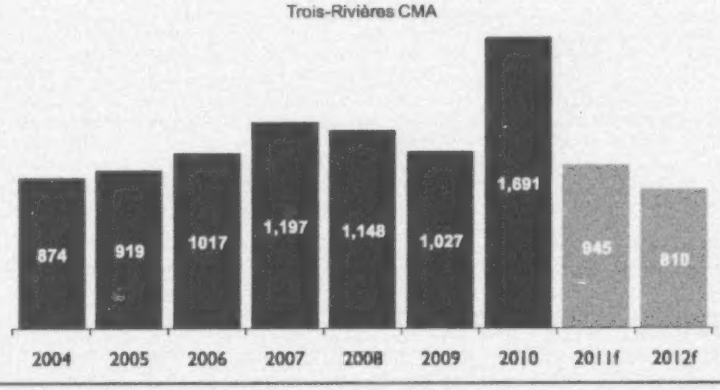
Demographic environment to be slightly less favourable than in past years

Migration has jumped up in the Trois-Rivières area in recent years, as the net level, which was negative in 2001, rose to more than 700 people annually just two years later, and has since remained between 800 and 1,000 people per year. This influx of newcomers in the area definitely put very significant pressure on housing demand in the area. Migration has very largely accounted for the strong activity that has prevailed on the residential real estate market in the CMA in recent years—on the new home, resale and rental markets.

In 2011 and 2012, however, the pace will slow down, in line with the rate of provincial immigration. In fact, the downward adjustment of the targets set by the Quebec government for the number of immigrants admitted for 2011 and 2012 (from 55,000 to 50,000 newcomers) will put some downward pressure on net migration in the Trois-Rivières area. The area attracted a rather large share (between 30 and 40 per cent of its net migration) of immigrants who, drawn by its relatively affordable market, chose to settle there. It should be noted that, in any given year, the area has the lowest prices in the country, for both properties and rents. However, the area will continue to benefit from steady interregional migration, as a number of young retirees (originally from the area) should keep moving back there. As a result, net migration levels will be lower in 2011 and 2012, but stable (at 750 people). This drop will therefore slightly ease the pressure on housing demand in the CMA.

Figure 2

Housing Starts to Decline After Posting an Exceptional Year in 2010



Source: CMHC
f: CMHC forecasts

Mortgage rates

Recent announcements by the Bank of Canada have indicated that the Bank will be leaving the target overnight interest rate unchanged at 1.0 per cent for some time to come. The Bank has been noting that in light of slowing global economic momentum and heightened financial uncertainty, the need to withdraw monetary policy stimulus has diminished. The last increase in the overnight interest rate occurred on September 8, 2010 when the Bank of Canada raised it by 25 basis points. Mortgage rates, particularly short term mortgage rates and variable mortgage rates, are expected to remain at historically low levels.

According to CMHC's base case scenario, posted mortgage rates will remain relatively flat until late 2012. For 2012, the one-year posted mortgage rate is expected to be in the 3.4 to 3.8 per cent range, while the five-year posted mortgage rate is forecast to be within 5.2 to 5.7 per cent.

Resale market to ease

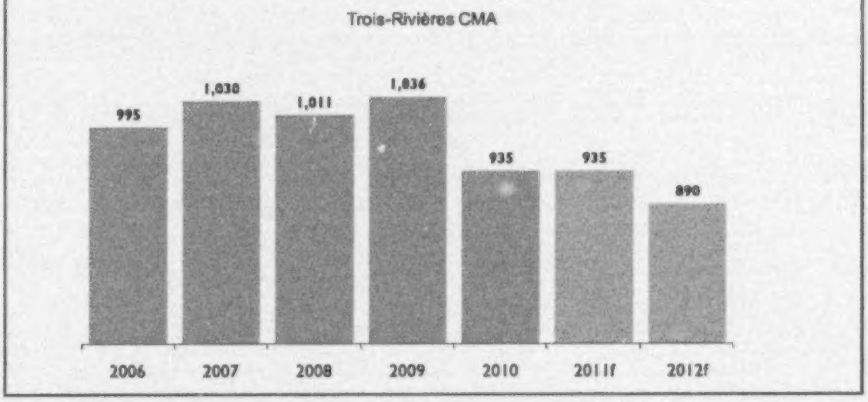
After three very active years for home sales in the Trois-Rivières CMA, the pace slowed down in 2010 (-10 per cent[2]). The level reached in 2010 will be maintained in 2011, and then followed by a small decrease in 2012 (-5 per cent). Despite this slowdown, though, it should be pointed out that the levels of activity will still be relatively high, as the 935 and 890 transactions expected in 2011 and 2012, respectively, will remain significant for the Trois-Rivières area market.

The anticipated recovery of the job market, combined with the still very favourable financing conditions, will stimulate transactions in 2011 and 2012. In addition, the much broader choice of properties for sale should help transactions take place, as a number of potential buyers will have a better chance of finding homes that meet their tastes—an environment contrasting with the situation that prevailed in previous years, when inventories of homes for sale were much more limited. Lastly, the price difference between new and existing homes, which has been stable for several years in the area, continues to work in favour of the resale market as, in the last five years, buyers had to pay, on average, between $55,000 and $57,000 more to buy a new home. On the other hand, the recent easing of the rental market will lessen the pressure on the movement to homeownership, particularly for very young households. In fact, the greater availability of rental dwellings on the market will give these renters more choice and therefore more flexibility to decide when to become homeowners. The demographic environment, for its part, will be slightly less favourable in 2011 and 2012 (lower migration), which will limit sales.

The power relationship between sellers and buyers will be progressively more balanced, as a result of the significant rise in inventories of properties for sale. After nearly 10 years during which conditions were relatively tight, with a limited choice of homes for sale and a strong demand, the market will now take a breather. As a result, in 2011 and 2012, the number of properties for sale will hover between 630 and 650 units. Consequently, given the growing supply of homes for sale, combined with relatively stable sales, the market should ease. In fact, the seller-to-buyer ratio, which has been rising progressively for several quarters now,

Figure 3

Home Sales to Remain Stable in 2011 Before Declining Slightly in 2012



Source: QFREB by Centris®
f: CMHC forecasts

[2] According to data from the Quebec Federation of Real Estate Boards

will move into the balanced range during the course of 2012, for the first time since the early 2000s. Sellers and buyers will therefore be on a level playing field during negotiations.

The less tight market conditions will lessen the upward pressure on prices. The average price of homes in the CMA will therefore reach $160,000 in 2011 (+5 per cent) and then $164,000 in 2012 (+2.5 per cent).

Residential construction slowdown to be expected after an exceptional year in 2010

Following several years of fairly high construction levels, housing starts in the Trois-Rivières area are bound to decrease. After a total of 1,600 new dwellings in 2010, the CMA should record about 950 starts in 2011 and more than 800 in 2012.

Since 2005, the new home market has shown unprecedented activity in the Trois-Rivières area, with housing starts surpassing the 900-unit mark year after year. Residential construction was most active, supported by rental housing starts. In fact, the year 2010 stood out in this regard, with close to 1,100 rental housing units (including over 500 for seniors) getting under way—a record. Foundations were therefore laid for a total of 1,600 dwellings in 2010. Following this exceptional year, a slowdown is anticipated, as 945 and 810 starts should be enumerated in the CMA in 2011 and 2012, respectively. It should be noted, though, that the level expected in 2011—above 900 units—remains very high, while 2012 will post more moderate housing activity, for the first time since 2005.

This slowdown will be due to the rental housing segment, where starts should be expected to decline significantly. In response to the slightly more pronounced easing of the rental market recorded in October 2010, the production of rental housing will adjust and slow down, and foundations should be laid for 395 units in 2011 (-64 per cent) and 300 units in 2012 (-24 per cent).

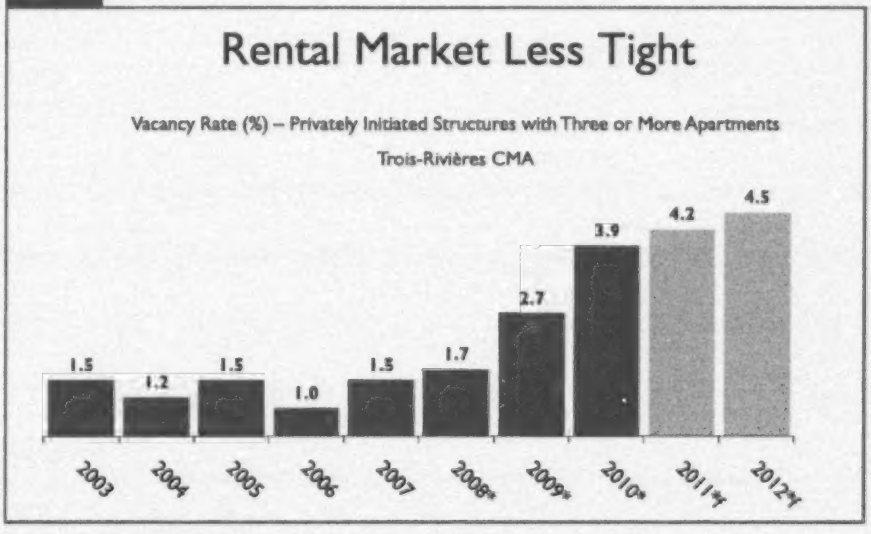
The construction of freehold homes[3] will also slow down, but to a much lesser extent. Even with a more favourable economic environment—thanks to the expected slight increase in employment—and financing conditions that will remain very favourable to borrowers until the end of 2012, the less significant migration than in past years, combined with the growing inventories of properties for sale, will lessen the pressure on the demand for new housing in the Trois-Rivières area. A number of potential buyers (particularly first-time buyers) will find homes that meet their needs on the existing home market, and will therefore not have to turn to the new home market. In all, single-detached home starts should reach 325 units in 2011 (-6 per cent) and 310 units in 2012 (-5 per cent). As for semi-detached and row houses, construction should get under way on 175 units in each of 2011 and 2012.

Lastly, in the condominium segment, a small increase will be registered in 2011, as 50 starts should be enumerated (compared to 28 in 2010). Activity will then moderate in 2012, and 25 starts should be recorded.

Rental market to remain stable in 2011 and 2012 after easing significantly

In 2010, the rental market eased more markedly, for the first time in almost 10 years, as the vacancy rate reached

Figure 4



Source and forecasts: CMHC

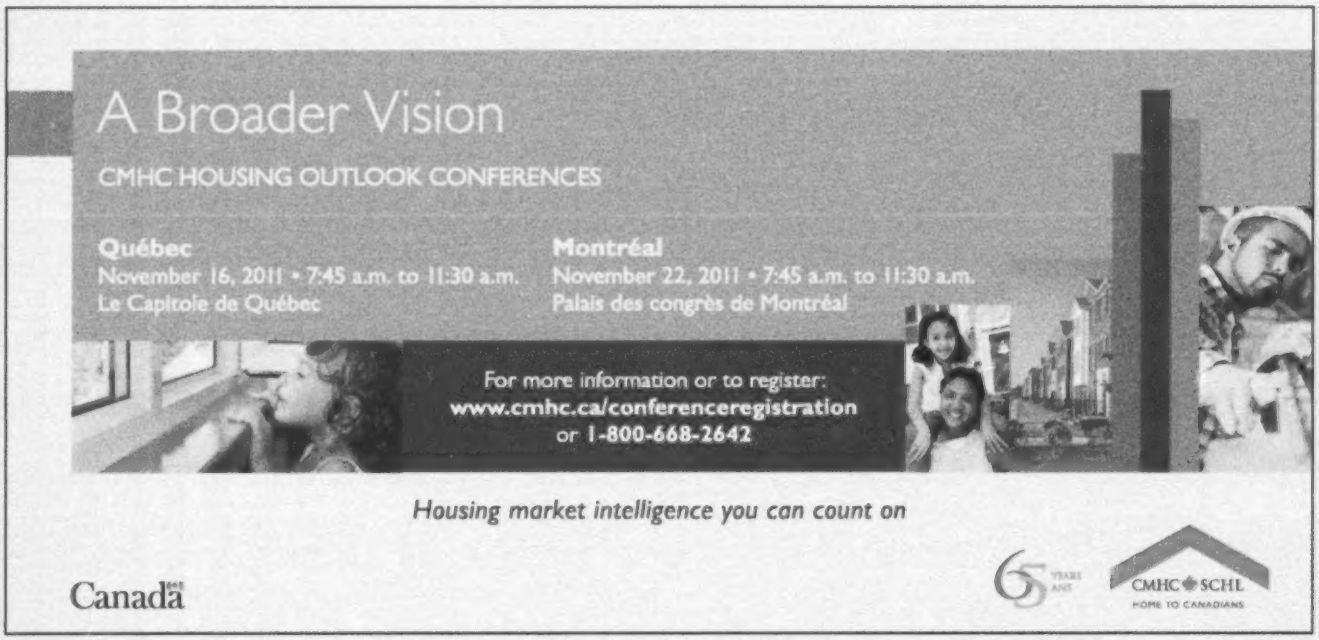
* Rental housing units for seniors were withdrawn from the survey universe.

[3] Freehold homes refer to dwellings where the owner also holds the title of ownership to the land (single-detached, semi-detached and row houses, as well as duplexes).

3.9 per cent in the fall (compared to 2.7 per cent a year earlier). This situation contrasts with the much tighter conditions that prevailed on the rental market in the CMA over the previous decade, during which the strong demand, resulting from significant migration, kept the vacancy rate at very low levels (less than 2 per cent). There was a constant supply of new units, with rental housing starts accounting for nearly half of all new dwellings, but the growing demand, year after year, prevented the market from easing. In 2010, however, the sluggish job market and less significant migration, along with the still very high levels of rental housing construction, pushed up the vacancy rate.

For 2011, while the anticipated recovery of the job market will somewhat boost housing demand, the slightly lower migration than in past years and the continued strong supply of new units, with quite a few dwellings started in 2010 having been completed in 2011, will offset this pressure. As a result, the additional housing supply and demand will balance out, such that the market will remain relatively stable. This scenario will recur in 2012, when the more favourable economic environment will put some upward pressure on housing demand, but the decline in rental housing production, which began in 2011, will maintain conditions relatively stable on the market.

The less tight market conditions will lessen the upward pressure on rents. As a result, the average rent for two-bedroom apartments in the Trois-Rivières CMA will reach $550 in 2011 and $565 in 2012.



Forecast Summary
Trois-Rivières CMA
Fall 2011

	2008	2009	2010	2011f	% chg	2012f	% chg
Resale Market[1]							
MLS® Sales	1,011	1,035	933	935	0.2	890	-4.8
MLS® Active Listings	531	455	518	630	21.6	650	3.2
MLS® Average Price ($)	138,366	142,048	151,937	160,000	5.3	164,000	2.5
New Home Market							
Starts:							
Single-Detached	373	375	345	325	-5.8	310	-4.6
Multiples	775	652	1,346	620	-53.9	500	-19.4
Starts - Total	1,148	1,027	1,691	945	-44.1	810	-14.3
Average Price ($):							
Single-Detached	195,052	199,774	209,570	216,000	3.1	222,000	2.8
Rental Market[2]							
October Vacancy Rate (%)	1.7	2.7	3.9	4.2	–	4.5	–
Two-bedroom Average Rent (October) ($)	505	520	533	550	–	565	–
Economic Overview							
Mortgage Rate (1 year) (%)	6.70	4.02	3.49	3.60	-	3.56	-
Mortgage Rate (5 year) (%)	7.06	5.63	5.61	5.42	-	5.43	-
Annual Employment Level	69,900	67,400	66,200	68,500	3.5	69,500	1.5
Employment Growth (%)	-0.6	-3.6	-1.8	3.5	-	1.5	-
Unemployment rate (%)	8.0	8.8	9.1	8.0	-	8.0	-
Net Migration	1078	798	825	750	-9.1	750	0.0

[1] *Source: QFREB by Centris®*

[2] *Privately initiated rental apartment structures of three units and over*

MLS® is a registered trademark of the Canadian Real Estate Association (CREA)

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), Statistics Canada (CANSIM), QFREB by Centris®, CMHC forecasts (2010-2011)

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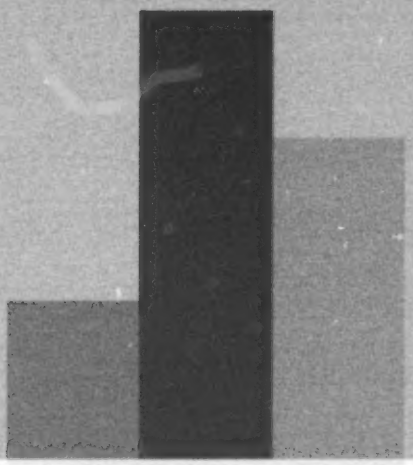

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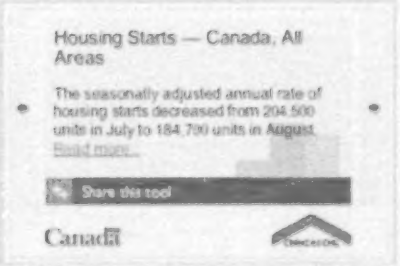
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